



ICASA

**Public Hearing for Individual
Commercial Free-To-Air
Broadcast Services**

23 NOVEMBER 2018

**KWESE TV (Pty)Ltd
Presentation**

QUALITY: Good

Session 6

Chairperson: Welcome back and good afternoon to everybody. We've got Kwese finally on the panel. They've just been showing their faces ever so often since yesterday. So now they are on their grilling seat. We are going to hear you. We'll give you an opportunity. As I have outlined earlier on, after you have made your presentation we'll break for lunch and then thereafter then the authority will come and question you. I need not repeat the rules of the game. We all know that we are at all cost to avoid offensive language in order to respect the integrity of the authority in this process, but we also need to be aware of time. We have got time allocations which is 30 minutes and the authority will then allocate- will be allocated an hour after lunch when we come back. So Mr Mgqibelo are you the head of the delegation? [LS1][FH2]

Mr Mgqibelo Gasela: [LS3][FH4] Chair, today I defer to my colleague -

Chairperson: All right.

Mgqibelo [LS5] Gasela: On my left.

Chairperson: Okay. All right. Let there over to you. Please introduce your panel and then kick start with your presentation. Thank you.

Zolile Ntukwana: Thank you Chairperson and thanks to the panel and good afternoon to everyone in the room. With me I - my name is Zolile Ntukwana and with me I have Mgqibelo Gasela from Group Regulatory, I've got Kutlwano Mzolo from research, I've got Robyn Smith from content, Francois Langenhoven from finance and then I've got Siphon Tsoetsi who's our Regulatory Advisor as well as Mandi Krebs and Abrian Marais from Hogan Lovells who are both our legal advisors. We have distributed copies of the presentation Chair to the panel. If there aren't enough copies please inform us so that we can give you more. Our presentation will just focus on four broader areas about ourselves, about our submission as well as why Kwese TV and the summary. Now if I may start about us, because Kwese Free TV is a South African entity that has got a shareholding structure where Royal Bafokeng Mitics holds 45%, Mosong Equities holds 35% and Kwese Econet South Africa holds a 20% and I'll talk about these shareholders just in the next slides. Royal Bafokeng Mitics, like I pointed out, it is part of the Royal Bafokeng Holdings Group and it is involved in various portfolios in terms of its economic activity including financial services, property, telecoms, resource mining services and others. And Mosong Equities which holds a 35% in Kwese Free TV is comprised of Mosong which has got you know interests in the property space, food and beverage and petroleum retail. And then 30% of Mosong Equities is held by Mighty Comms which is involved in infrastructure development in the ICT

space as well as the software development. And then Kwese Econet South Africa is a South African entity that is 100% owned by Econet Media Ltd which is a foreign entity that has been active in a number of countries on the African continent providing free to air television services in the form of Kwese Free Sports. Also providing over the top services in the form of Kwese Play and providing mobile services through Kwese iflix. So all of these are the products in the broadcasting space that Econet Media on the African continent is active on. Now coming to our submission Chair, the submission will show that the South African FTA market it really is able to accommodate [cleaning throat - excuse me] a new entrant which would have expertise in the digital media as well as the disruptive innovation space as well. Kwese TV is the right choice [cleaning throat - excuse me] for a new FTA license for us in that (1) it has shareholders with sustainable ties as well as deep experience and ties to local communities. The shareholders also have a local and international experience running media production channels as well as platforms. And Kwese Free TV has developed a unique value proposition as well as strategy and the business case through looking at different business models which are disruptive and it seeks to engage with audiences to derive advertising revenues leveraging global best practice. So we really do believe that there is space for a new entrant in the free TV or free to air space market in South Africa. We are aware of the changes that are impending that are going to be brought about by you know the digital switchover regarding the delivery of these broadcasting services. So our interactions with the signal distributor as well as our planning is informed by the fact that there will be these changes that will be coming on the digital social front. And the mission that is guiding Kwese Free TV business is that we are a dedicated to opening up the market, giving Kwese Free TV viewers access to high-value content and my colleague Robyn will talk about the content approach which will include like I said high-value content. It will include local content. We also will be achieving our mission through deeper channel profiling that is providing the channels that speak toward -has been picked up through our research and both my colleagues Robyn and Kutlwano will talk to these. And we'll also leverage the digital opportunities that the digital switchover brings about as well as the experience that we have in providing these services across different platforms in the markets that we already exist. Just moving to the Free TV organisational chart, without spending too much time on it, we have provisioned for sufficient staff and appropriately skilled staff that have experience across the spectrum of services that needs to be provided including platform management, including channel management, including sales, all of the required positions are provided or provisioned for. So we are going to have five channels, so there's positions that are going to be repeated over the five channels, but the overall experience that the people that will be appointed have in this space will be a combination of a hundred years. We'll have 55 employees but this is informed by an independent commissioning model that from a content production

perspective will be employed as well. So Chair without wasting too much time, I'll hand over to Kutlwano to talk about the research.

Kutlwano Mzolo: Thank you Zolile and thank you Chairperson. Our key research objective was to gain insights into the local TV broadcast market. We set out to achieve this by evaluating the feasibility of the opportunity and how we as an entity could effectively catered to local needs. GeoPol, the world's largest mobile survey platform rendered their expertise in conducting an sms based survey in that South African adult respondents in eight provinces which is representative of the max through re-coverage. We have opted to conduct quantitative primary research for results that could be clearly shown through objective, statistical and numerical data as a synonymous with this nature of research. Given the mass target marketing of the DTT platform, our survey aimed to quantify opinions and behaviours and generalise results from a larger sample population. So we really just wanted to focus on being inclusive and representative of the nation at large, hence we went for the 1 000 respondents. The estimated margin of error of the survey is 3% on a 95% confidence level. Now going into the key findings of the survey, it pointed to 58% of free to air viewers being dissatisfied with encumbrance offerings and this is where the opportunity for our service really lied. The research results were also conclusive in corroborating the mandate in the free to air market for content that is noticeably under catered for. And further to that 50% of the respondents in our survey showed a preference for dedicated free to air channels. The quantitative survey was targeted at the general TV viewing population and appropriately representative of age and gender demographics, as well as geographic composites. GenC to baby boomer ages were encompass with a fairly even male to female ratio. Our offering is structured to appeal to diverse demographic groups and as our programming and channel strategy will demonstrate, each channel appeals to different gender and age demographics. As my colleague Robyn will take you through our programming.

Robyn Smith: Thank you Kutlwano. If you've indulged me for a minute Chair to play a short video just to show a flavour of what we could offer.

[Video played]

As you see I get the best position on the panel and telling you about the exciting things we're going to do with the channels. So let's start looking at what this channel offering actually is. So initially we've gone with five channels and we've obviously been, as you heard my colleague speak about the research that we've commissioned, we've looked at what the outcome of the research was and then lined up the channels in terms of what viewers actually want to see. So our approach here is been very consumer customer centric. So the first one is Kwese Free Sports which is a, you know in South Africa it's soccer, soccer, soccer and in other codes of sport are relevant to our

market. The next is Kwese Brave which is an action movie and series channel. We know that it's the bastion of South African viewership that we make tent poles around action in this country. A Kwese Stories to highlight a genre that women very often lead in viewing but we know men watch as well, telenovelas and slightly more female skewed viewership. A Kwese Vibes that youth, that everyone is chasing, that is out there, that's on their mobiles. This is a platform and a place where we will find them as well as kids content, slightly younger than the teens and youth. And lastly Kwese Focus which is a channel dedicated to documentaries, learning, knowledge, self learning, business, technology. So how do we match up our strategy with the market segmentation? If you look at the content offering we'd like to indulge you a little bit by going into what that offering actually is. So we've talked about soccer being soccer and soccer and all soccer but we also know that boxing, rugby and cricket, we would be very re-miss if we missed those codes of sport. As we know it's a huge following, not only on a professional level but at a school level too. Kwese Brave slightly male skewed, a temple of viewing. We know that Friday nights, Saturday evenings, we know family viewing is very important in our market. And this is where we set the president for families to come and view those blockbusters, those great entertainment movies, those action adrenalin based genres that families are based around. I'm sure from the Karate Kid when you were a little boy or girl to you know Transformers now, that genre definitely pushes the buttons in terms of the big blockbusters. Kwese Stories, good mix of telenovelas, reality shows, talk shows. We know that in the South African context, if you talked about the traditional context, we know that you can never get away from the telenovela when you come home, take off your shoes and watch, the first thing you want to watch is that long-term soapie. We will give you more of that. In terms of Kwese Vibes the youth, you know how they are. They're on their mobiles. They're on their tablets. They're on all kinds of other media. But this is an opportunity to use the television as a media and the other platforms to support it. In this genre as well, we will be looking at kids and kids are such an important part of South African life. If you look at ratings across the board, you find that kids especially in the afternoons take up a large portion of viewership. So here we will be looking at animation as well as live action. Kwese Focus, business documentaries, learn more about yourself, see what's out there, how you can interact with other entities that have the same interest. I'm going to skip to the last line where we talk about local content. It's a - we know that this mandate but very essence, it's not about bringing - just about bringing entertainment and learning, it's about building the local industry. And that's why it's so important for us to look at how we're going to build local content over the - over - we've just picked a moment in time, over two years. In terms of - you can see the genres are quite well developed. Obviously the one that we would have to work on a little bit more is Kwese Brave because that genre, we don't have a lot of local content in the market currently and we would have to build that

industry. Moving on, one of the ways we build that industry and we build that local content is through commissioning, acquiring and making local content. In this regard we've got Kwese Studios and already an established platform where we already make some content that flows through those studios. A very important point here is that during the FIFA World Cup, Kwese Studios was able to be the hub for broadcasting seven broadcast channels across territories into Africa, a hundred broadcasters in three languages and they were able to do that independently. So that's the capability that we have in our back pocket. So how did we get to this? How do we position our channels? So if you look at the graph that we're showing now, you can see the incumbents in the market already. They're fairly main stream. They're general entertainment channels that have to cater for a large audience across lots of languages because their mandates are quite specific. Where we seen the opportunity and the unique competitive advantage, is to delft deeper into some of those really great genres that the incumbents can't do. They have to cater for huge markets, families, old people, young people, women, male, children, but what we can do is in various ways we can build those genres out a little bit more so that if you like telenovelas, if you like reality show, if you like music, we can build those genres and thereby attract more advertisers which will then make it more of a sustainable business. So you can see that the channels that we've recommended have a skew that goes across all the different demographics. Crucial thing programming time, are we go - how will we programme our channels? We won't go into every single slot, but just to give you a flavour of it, we're very aware that in South Africa the prime times are from 06:00 – 21:00, but there are Access Prime and there's Shoulder Prime. We know that people in this country wake-up really early, the taxi's are on the road. I'm sure we've all had the experience that even at 06:00 in the morning people are hurrying to work. We all know that at 17:00, I think we all realise that with the current incumbents in the market, guys like Bold and the Beautiful build their audiences around the 17:00 stran. No imagine if we could get into that stran and build an even greater audience. So we know there's available market from 17:00 in the evening, the peek time viewing as we said is between 06:00 and 21:00, 21:30. There are twenty-four hour channels. They will cater for kids coming home from school in various time slots. Sport will just highlighted slightly. We know that slightly different and on weekends it may - the weekend matches will take president and the prime time viewing they would be a little bit skewed. Thank you very much. I will handover to Technical.

Zolile Ntukwana: Thank you very much Robyn and Kutlwano. And I would just - to talk about the technical issues on our channel configuration plan is for five Kwese TV channels like Robyn has just said which will be primarily you know will run from our Kwese Studios formerly Urban Bro Studios in Randburg. One of the channels will be an HD which is Sports channel and the four other channels which are thematic channels will be on SD. We have entered into an

arrangement with Sentec, who'll be our broadcast signal distribution partner and they will be broadcasting services for us or assisting us upon the printing of the licence using a statistical multiplexing you know approach to maximise the use of bandwidth. And this - we also put a diagram that they've you know indicated to us as a distribution diagram to which we have agreed to and there's also a map which indicates the coverage of the marks at the moment as well as - like I said earlier we are aware of the fact that the digital switchover will improve the situation and so our role out plan and discussion with them is informed by the fact that will be happening. Now all of these require money Madam Chair. So for that reason, I will ask my money man, Mr Francois Langenhoven to talk broadly about our finance issues.

Francois Langenhoven: Thanks Zolile. Chairperson, members of the Board, Kwese Free TV in its application has a confidentiality arrangement. So we will respond to the questions where applicable in writing, if that's okay. But allow me to highlight some key financial aspects and assumptions used in our financial model. Firstly, advertising sponsorship and product placement revenue, the only revenue we rely on in this plan, is estimated from year one to be at a 2.5% share of the total TV revenue. We've gone then further and discounted that by 50% just to reflect industry practice and be more conservative in our approach to the numbers. Programming and production expenses were included in the plan for all five channels right from the beginning in year one. [No, I'm talking to this person]. The company will leverage us, Robyn mentioned of Kwese Studios, to produce some of its local content and then the entire business is managed and operated by a staff compliment of 55 people, also costed in full from year one because we use the commissioning model for all our local content which is then built into the production cost. I want to highlight that the impact of taxation is not included in the numbers that you've got. It will affect the results from year seven onwards and will have no impact on the operational ability of Kwese Free TV to deliver the services plan. Okay. The slide on at the moment will show you that our earnings before interest and tax is positive from year four onwards. It just breaks even in year three but four it's positive and it also shows that our funding requirement peaks in year three. We're at the top point after which there's a payback - a payback period starts. Funding avenues available to the business is loans from banks and other financial institutions, shareholder loans, the issuing of authorized securities of the company and then later on also operating profits and reserves. In the next slide you can see the largest component of our cost will be content cost, both locally, locally produced and foreign licensed. And you can see there that we start off with a 58% local component of production cost peaking or going up to 69% in year five. We also then spend 18% of our cost on transmission, 19% of cost will be spend on staff and 6% is spend on marketing the business. Thank you very much. I'm going to hand over to Zolile.

Zolile Ntukwana: Thanks Francois. And then Chair just to summaries and closing why Kwese Free TV? Our content approach is there's something for everyone based on the thematic offering. It is under paint by you know the premium sport delivered in a HD resolution on the Sports channel, diverse programming approach as well as local content development. In terms of management experience, I did indicate when I was talking about our organogram that we do have a staff compliment that has a combination of 100 years of experience in different areas of the business. We're an established or part of the [00:25:36] an established Pan-African media business in the sense that Kwese is in 19 countries with the largest free to air channel on the continent as a free to air channel. We also have established affiliate partners in other countries where we don't have necessarily licenses but we've got partnerships. The business model is very much low execution risk. It is a realistic business case with achievable timelines. So the things that we're talking about are not things that we are thinking of, it's things that we have experienced in different markets as we were launching. So there's a - there's experience in that regard. We're market relevant. There's a practical approach that were implementing to the launching of services as well as Pan-African buy-in power. Last we're looking at local investment, we've got you know excellent shareholder support and expertise in the form of the three shareholders that have shareholding in the company. And there's commitment to developing local film and production industry like Robyn has indicated. And also committed to you know developing local technical skills and we've been doing that as well in instances where through the Econet Media subsidiaries on the continent have been active. So Chair this brings us to the end of our presentation. We were mindful of the time given and we'll be happy to deal with the questions when we come back as the Chair has indicated. Thank you very much.

Chairperson: Thank you very much Kwese. The Chair never had to remind you of time because it was within your time limitations. Thank you very much. As I had already outlined, we will take a lunch break and then the panel, the ICACA panel will then question - pose questions at you when we come back from lunch. We'll take one hour break. It's 12:45 now. We'll come back at, let's make it 14:00. And then just housekeeping rules, the authority has catered but we also know that we're operating under [00:27:57]. So our catering is very limited. To - at that extent I would request that as we had already indicated with the presenters that we will only cater for the panel members of the presenters today, and as for the rest of our guests, the chef has made an arrangement that there shall be a meal for R200 in the event that you would like to share with us in lunch. I hope that clarifies and then our Lady Kholane, she's got vouchers that she will give - meal vouchers that she'll give to our panel members as well as they [00:28:37] up, I mean they - the presenters as well as the panel members of ICACA. That being the case then I would

request for us to break for lunch. We'll see you at 14:00. Thank you very much.

[Break for lunch]